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Sustainability Risk Policy for Italy

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1. Introduction

EFG is committed to Sustainable and Responsible Investments and to supporting sustainable financial markets. The Asset Management arm of EFG, EFGAM is member of Swiss Sustainable Finance (SSF) and a signatory to the United Nations Principles for Responsible Investment (PRI). As a group aiming to produce financial returns for our clients, we believe that to obtain a rounded view of investments, of their risks and opportunities we need to look at them with a wide lens; Environmental, Social and Governance (ESG) issues are part of such an effort. While it is not always possible to directly link ESG considerations to financial value, we believe ESG performance can provide a proxy for the quality of management and for the capacity of the investee to deliver sustainable competitive advantage.

We also believe that an economically efficient, sustainable global financial system is a necessity for long-term value creation. As such EFG is are also committed to more and more consider the externalities produced by companies and investments on the environment and society. An improved control in both directions will reward long-term, responsible investment and benefit the environment and Society as a whole.

2. Analysis

To better drive the ESG integration process EFG built an ESG analysis team that collaborates with the investment teams worldwide. This team structures and maintains bespoke tools and analysis that help monitor sustainability risk in the investments and products managed by EFG and cooperates with other teams to define processes that are consistent across the group.

Direct Investments
With reference to direct investments EFG owns a proprietary ESG assessment tool, the GRIP[1] (Global Responsible Investment Platform) that is based on financial materiality and allows us to assign an ESG rating to invested companies with a 0% to 100% scale where the weak ESG companies receive a lower rating. For covered companies GRIP may include up to hundreds of datapoints divided across different KPIs (Key Performance Indicators), that are selected and weighted in line with our view on the sector specific financial materiality of the different industries. The definition of our framework follows the below structure

i. Definition of industries/sectors.

ii. Definition of the Key Performance Indicators (KPIs) and of a scheme to organize them (KPIs tree). The KPIs and the scheme cover the relations between any company and its stakeholders.

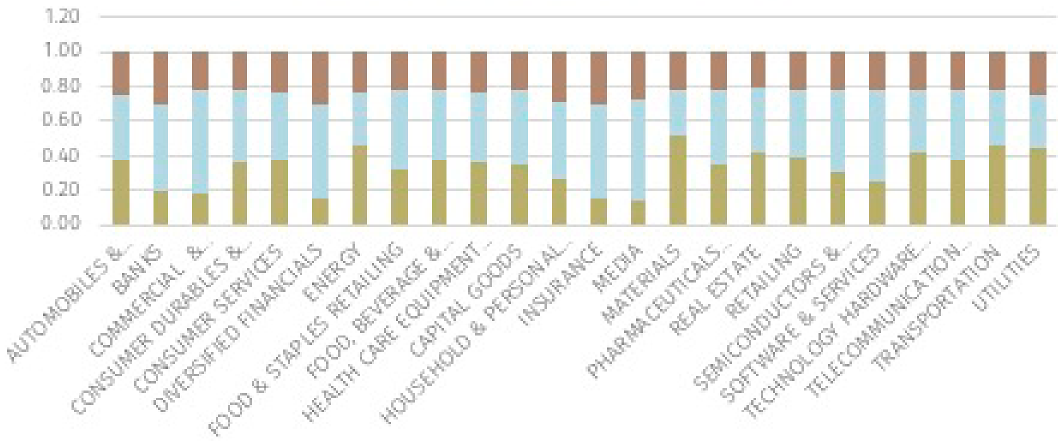
iii. Definition and grouping of the data needed to assess the KPIs.

iv. Definition of the materiality (weight, relevance) of KPIs for each industry/sector.

v. Definition of additional requirement specific for each industry/sector, if any.

The data points used for GRIP are currently sourced from Refinitiv, RepRisk and CDP.

E,S,G weightings across industry groups



3rd Party Mutual Funds (Long Only Funds)
EFG owns a proprietary ESG assessment tool for 3rd party funds that is based on a combination of top down and bottom up approach that consider the specific investment process of the funds.

The top down approach starts with the assessment of the UN PRI (Principle for Responsible investments) transparency score that is used together with additional consideration to identify and verify ESG elements of the investment process, based on an internally defined questionnaire. Exclusion of controversial weapons is also expected.

To compliment the top down analysis, EFG also reviews Morningstar's and MSCI ESG portfolio scores for each fund.

Finally, the bottom up & top down scores are combined to give an overall ESG score. As a consequence of this approach, our approved "Long Only" fund list is rated with respect to the ESG integration and funds are classified accordingly.

While this list is used for most of our investments, EFG Portfolio Managers also have the discretion to invest in funds that are outside this list. However, also in this case, the ESG integration level of these funds is assessed, albeit with a slightly different process: in such cases local Portfolio Managers are required to analyse the level of ESG integration of the investee funds and to identify if the specific strategy can create a bias that increases sustainability risks through the use of a specific template that is mandatory for all new investments and renewals.

[1] A more detailed description of the GRIP can be found on https://www.efgam.com/doc/jcr:620279ad-9b4b-4482-93f2-1d7d6fb49e0d/04_Rating%20methodology.pdf/lang:en/04_Rating%20methodology.pdf

3. Performance and Risk

One of the key objectives of investing is to produce returns, and we are very much aware that there is no return without risk: it is therefore paramount to monitor the variables that could have a negative impact on investment performance such as the financial or the extra-financial factors that can impact the risk-return profile or have financial consequences. EFG monitors and appraise how the implementation of the current Investment Policy impacts risk-adjusted investment results and takes appropriate action should the results be unsatisfactory. Regularly the ESG team assesses the link between risk and ESG profile. The assessments performed so far clearly show a positive correlation between equity volatility and sustainability risk expressed by a low ESG score which is the reasons why EFG since many years decided to focus on ESG scores as an additional risk parameter.

In the case of fixed income assets the relation between ESG and risk/return is more controversial as the worst companies tend to have a higher yield and therefore, unless they go bankrupt, i.e. they tend to provide higher returns. In the fixed income space the name of the game is downside protection and sustainability risks are assessed with the aim to better understand if the yield we get from an investment is aligned with the whole set of risks we take: the financials, but also the extra-financial ones that can have an impact on the bottom line of the company.

EFG carefully monitors the exposure of its investments to climate change risks focusing on emissions and preparedness to react to transition and physical risk. Appropriate tools, such a CO_2 scenario model, are at disposal of fund managers and analysts to check company exposure to CO_2 risks. Additional tools provide information to coal and fossil fuel exposure. The specific attention we paid to fossil fuel intensive industries proved to be beneficial for the past performance of our investments.

Assessing the sustainability risks and performance of the 3rd party funds is a more complex exercise due to different approaches and rating system used by fund managers. Exclusion criteria also play a significant role in making this assessment even more complex. Finally, the amount of fully ESG integrated funds is still limited. Following the many academic papers that suggest the existence of a positive link between ESG and risk/return of investments (or the lack of a negative correlation) we believe that ESG integration in our fund analysis will provide a better risk/return profile for our investments.

4. Integration

The integration of sustainability risk into our offering follow slightly different steps according to the specific product or service.

4.1. Discretionary Management Services

The integration of sustainability risk into our discretionary managed portfolios can follow slightly different steps according to the specific line of products, that in some cases promotes environmental and social characteristics. With reference to the latter a separate document is available.

Direct Investments

- EFG consider ESG integration as being part of a sound due diligence process and as such companies that receive a score lower than 25% are removed from the discretionary investable universe, unless an engagement process is put in place. These companies are usually exposed to significant controversies or are not transparent making almost impossible to correctly assess their sustainability risk exposure.
- Companies with a coal share of revenues >30% and no reduction or mitigation plans are also removed from our discretionary investable universe to reduce the stranded asset risk and the chances of a sudden collapse of revenues.
- The integration of sustainability risks is done through two alternative channels:
  - EFG adopts an ESG checklist that also focus on the main sustainability risk allowing investment professionals to better assess and keep track of the different risks that will be considered for all new investments and renewals of investment cases (Equity and Fixed Income)
  - Integrating ESG scores in the algorithms that define the attractiveness of investments meaning that the higher the sustainability risk, the higher needs to be the expected return that is expected to justify holding the security. (Applies to equity only)
- In addition to that EFG carefully monitors the exposure of its investments to climate change focusing on emissions and preparedness to react to transition and physical risk. Appropriate tools, such a CO2 scenario model based on NGFS scenarios, or a list of companies significantly exposed to coal and fossil fuel is at fund manager disposal. The strict control we applied on these industries proved beneficial for the performance of our investments.

Indirect Investments - Mutual Funds

Our Approved fund list is screened thanks to EFG proprietary ESG assessment tool for 3rd party funds previously described. When selecting funds for implementation in portfolios fund managers are required to, ceteris paribus, give preference to ESG integrated funds. EFG Portfolio managers also have the discretion to invest in ESG integrated funds also when they believe that the better monitoring of sustainability risks can produce a more favourable risk/return profile.

Considering the limited availability of ESG integrated funds to date, non-ESG integrated funds can be selected when the analysts or portfolio manager deem a reasonable ESG integrated alternative doesn't exist, based on a comply or explain approach.

Indirect Investments - Alternatives
Within Alternative investments Portfolio managers have to follow the EFG Alternatives Fund list and can't invest in funds outside the list.

Advisory Services
The integration of sustainability risks has the aim to better understand if the return/yield we expect from an investment is fully aligned with the financial and extra-financial risk we take. Within our Advisory services the Investment Consultant (IC) and Client Relationship Officers (CRO) have at their disposal approved lists containing ESG rating and/or ESG classification for most of the securities. When providing investment advice both IC and CRO consider the level of sustainability risk.

Investment advice on Hedge Funds and Alternatives currently do not integrate Sustainability Risk due to the limited availability of alternative funds with a sustainability integration approach.

5. Exclusions

EFG, within its Discretionary offering also applies some additional ethical and exclusion consideration in its investment process excluding from its investment universe companies that produce cluster bombs, landmines, biological or chemical weapons or companies that produce nuclear weapons for countries that didn't signed the Nuclear non-proliferation treaty. Additionally, it excludes companies in breach of the Ten Principles of the UN Global Compact, unless a clearly defined engagement process is ongoing.

As sustainability risks continue to evolve and their understanding change over time, EFG periodically reviews and updates its sustainability risk policies, procedures and practices.

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